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BEFORE THE ARIZONA CORPORATION COMMISSION

2011 NOV -4 P 4:43

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Arizona Corporation Commission

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NOV 4 2011

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

DOCKETED BY

IN THE MATTER OF THE
APPLICATION OF TUCSON ELECTRIC
POWER COMPANY FOR APPROVAL
OF ITS 2012 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN
AND DISTRIBUTED ENERGY
ADMINISTRATIVE PLAN AND
REQUEST FOR RESET OF
RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-01933A-11-0269

**THE SOLAR ALLIANCE'S
COMMENTS ON STAFF REPORT**

The Solar Alliance hereby provides comments on Report and Recommended Order prepared by the Utilities Division ("Staff") regarding the application of Tucson Electric Power ("TEP") for approval of its 2012 Renewable Energy Standard Implementation Plan.

The Solar Alliance appreciates the opportunity to comment and participate in the Open Meeting currently scheduled for the week of November 7th (the "Open Meeting"). These comments are intended to be high level remarks designed to facilitate the discussion and the Solar Alliance reserves the right to file additional comments to the docket for consideration after the Open Meeting.

The Solar Alliance has major concerns with all the options Staff presents, but believes Staff's Option 1 is the best of Staff's three options. However, the Alliance

1 would like to make a special note of its support for Staff's recommendation that all
2 residential customers remain eligible for the same incentive level regardless of whether
3 they choose to purchase or lease a solar system.

4 The Solar Alliance is greatly troubled with Staff's Option 2 and the other options
5 as well. The anemic market size proposed for TEP commercial programs would be
6 devastating for solar businesses and represent a big step backward for Southern Arizona.
7 Notably, after 2012, there will be little to no commercial distributed generation until
8 2016. Although Staff acknowledges the need for market stability as an important issue,
9 Option 2 does not provide a path forward for the industry in the years ahead. This makes
10 business planning and investing unfeasible.

11 From a residential perspective, Staff's Option 1 will maintain the previously
12 approved budget that companies planned around, while Option 2 will significantly cut the
13 residential funding pool. Given the significant reduction in funding on the commercial
14 side in 2012, the Solar Alliance feels that maintaining the residential sector is especially
15 important for the broader industry. The Solar Alliance also notes that Staff's Option 1
16 would reduce the residential REST charge relative to 2011 levels.

17 The Solar Alliance urges the Commission to provide a stable path forward for the
18 industry. As noted in the its prior comments, the termination of solar programs that once
19 successfully served multiple market segments will lead to job losses and business
20 closures. Such effects have economic consequences extending far beyond just solar
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1 companies. In fact, the entire supply chain that supports their function will be negatively
2 impacted. Examples include silicon and materials suppliers, equipment vendors,
3 construction workers, steel companies, electricians, architecture firms, and hardware
4 supply companies.

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6 Four to five years without a commercial solar program would be catastrophic.
7 Southern Arizona would lose all the human capital invested in the industry and ratepayers
8 may also be adversely impacted as the commercial programs fully resume in 2017 in
9 parallel with the expiration of the 30% federal investment tax credit. In addition, warranty
10 issues may arise as solar companies close their doors. For those reason the Solar Alliance
11 recommends discussing the following items at the Open Meeting:

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14 • **Drastic reduction in the commercial DG market in 2012 and a suspended**
15 **commercial market in years 2013-2015.**

16 All of Staff's Options reduce the small commercial market by 70% and the PBI
17 market by 50%. Subsequent years will likely see zero new commercial solar installed. As
18 noted, this is detrimental to all commercial solar installers and fatal if there is no market
19 activity in the years ahead.

- 20
21 • **40% residential market contraction starting in 2013**

22 Looking forward to 2013, the residential market will be reduced by nearly 40%.
23
24 This contraction, in conjunction with the stalled commercial market, erases the gains
25 Southern Arizona has made in delivering ever more cost effective solar energy to
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1 ratepayers. This also puts the industry in a position where it is incapable of handing the
2 2016 ramp up in demand, especially in a post ITC environment.

3 • **Market stabilizer**

4 The Solar Alliance urges the Commission to implement a type of compliance floor
5 to stabilize the industry and provide a path forward around which businesses can plan. A
6 floor would enable a consistent level of business activity while mitigating the steep ramp
7 up in demand as the REST increases in later years. Additionally, due to ever decreasing
8 cost declines in solar energy, the Solar Alliance believes that a reasonable level of
9 demand can be reached and maintained with only a minor impact on the surcharge.
10 Indeed, keeping the residential surcharge cap below \$4.25 would be attainable even with
11 programs more focused on UFIs than PBIs.

12 • **Residential market demand: sustained trends vs. short-term fluctuation**

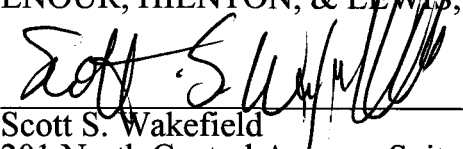
13 The Solar Alliance acknowledges that in recent months the demand for leased
14 systems has increased considerably but cautions the Commission against making long-
15 term policy changes in response to what can only be characterized at this time as a short-
16 term market fluctuation. The data presented on page 11 of Staff's report suggests that for
17 the 12 months leading up to August 2011, residential lease applications averaged between
18 10 and 20 systems per month, implying a total lease demand of approximately 180
19 systems (this is a visual estimate of the p. 11 chart). In just 2 months - August and
20 September - the application volume for leased systems exceeded the prior year's total
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1 volume. More recently, the 67 projects funded in Q4 at \$0.75/W were reserved in a
2 single week and were predominately for leased systems. The Solar Alliance strongly
3 discourages the Commission from concluding that the recent uptick in lease applications
4 is indicative of robust market demand and thus warrants a reduction in incentive levels
5 below the \$1/Watt Staff proposed. This position is further reinforced by the fact that the
6 1603 Treasury Grant program expires at the end of this year. The Solar Alliance believes
7 that only sustained increases in market demand warrant gradual incentive level
8 reductions, not short-term market fluctuations. Accordingly, The Solar Alliance supports
9 starting 2012 with a \$1/Watt UFI as Staff has proposed.

12 Dated this 4th day of November, 2011.

14 RIDENOUR, HIENTON, & LEWIS, P.L.L.C.

15 By

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19 ORIGINAL and 13 copies filed
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1 COPY of the foregoing HAND-
2 DELIVERED this 4th day of
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